

California Energy Commission's Quarterly Report Regarding the Renewables Funding Program

(April 1 – June 30, 1999)

The California Energy Commission (Commission) is pleased to submit its Quarterly Report on the Renewables Funding Program covering the period April 1 through June 30, 1999¹. The report describes the Commission's implementation activities, including information regarding awards submitted to the State Controller² for payment, the cumulative commitment of claims by account, the relative demand for funds by account, a forecast of future awards, and related matters.

Background

Assembly Bill 1890 ([AB 1890] Chp. 854, Stats. 96) required California's three major investor-owned utilities to collect **\$540 million** from their ratepayers over a four-year period (1998-2002) to help support renewable electricity-generation technologies and the development of a renewable market. As AB 1890 required, the Commission submitted its ***Policy Report on AB 1890 Renewables Funding (Policy Report)*** to the Legislature in March 1997, with recommendations for allocating and distributing these funds. Senate Bill 90 ([SB 90] Chp. 905, Stats. 97) subsequently established a Renewable Resources Trust Fund, placed the \$540 million into the fund, and directed the Commission on how to distribute the fund through four distinct accounts consistent with the ***Policy Report***. These accounts and the total funds allocated to each are:

- Existing Renewable Resources Account (**\$243 million**)
- New Renewable Resources Account (**\$162 million**)
- Emerging Renewable Resources Account (**\$54 million**), and
- Customer-Side Renewable Resources Purchases Account:
 - Customer Credit Subaccount (**\$75.6 million**)
 - Consumer Education Subaccount (**\$5.4 million**)

In January 1998, consistent with SB 90, the Commission adopted overall funding guidelines, eligibility requirements, yearly allocations, and account-specific guidelines to assist participants in applying for funding from the various accounts within the Renewables Funding Program.

Renewables Funding Program Implementation

¹ Public Utilities Code (PUC), Article 5, Section 445(g) requires the Commission to report to the Legislature quarterly on fiscal and programmatic aspects of the program.

² As a procedural matter, the Commission submits awards directly to the State Controller for payment, rather than through the Treasurer. This procedure significantly streamlines the award-payment process for all participants.

The mechanisms for distributing funds vary by account, as do the implementation activities for each account. Table I highlights the Commission's implementation activities for the second quarter of 1999 and describes the expected funding and implementation activities for the third quarter.

Table I
Renewables Funding Program:
Second Quarter 1999 Program Implementation

Account, Program-Implementation and Funding Activities: April – June 1999	Expected Funding and Implementation Activities: July – September 1999
Existing Resources Account	
<ul style="list-style-type: none"> A total of 331 facilities registered as renewable suppliers and 240 facilities are eligible for funding. Tier 1 (biomass, solar/thermal, and waste tire) paid 1.5 cents/kWh on 479 million kWh for February, March, and April. Tier 2 (wind) paid from 0.92 – 1.0 cents/kWh on 573 million kWh for February, March, and April. Tier 3 (geothermal, digester and landfill gas, small hydro, and municipal solid waste) paid 0.09 – .58 cents/kWh on 1,687 million kWh for February, March, and April. Payments totaling \$19,305,112 made this quarter. Rollover of about \$19.1 million as of June 30 for Tiers 1 and 2. There is no rollover for Tier 3. 	<ul style="list-style-type: none"> Payments for May, June, and July generation are scheduled for August 2, August 31, and September 30, 1999, respectively. Estimated third quarter 1999 payments (May, June, July): \$19.9 million.
New Resources Account	
<ul style="list-style-type: none"> The Commission, as of May 26, 1999, has approved all 55 Project Award Packages. Eight projects have come on-line and are producing electricity. No payments made during first quarter. 	<ul style="list-style-type: none"> Project developers will continue to reach milestones toward coming on-line. Construction of many projects will continue, payments to on-line projects scheduled to begin during third quarter.
Emerging Resources Account	
<ul style="list-style-type: none"> Received buydown-reservation requests totaling \$8.6 million since program began March 20, 1998, with about \$660 thousand reserved this quarter. Payments for installed systems totaling about \$1.64 million as of June 30. Received 90 new reservation requests this quarter. 	<ul style="list-style-type: none"> Draft report of market research on emerging technologies due third week of July. Report on the On-Site Verification Program expected third week of July.
Customer-Side Account	
Customer Credit Subaccount	
<ul style="list-style-type: none"> Sixteen active marketers are registered as renewable providers, offering a total of 31 products containing renewable energy. Four new providers registered this quarter. Payments totaling \$7,168,119 made to renewable providers as of June 30. 	<ul style="list-style-type: none"> More payments will be made as providers continue to submit invoices for funding. The market will continue to be dynamic, as renewable providers and products are added and dropped.
Consumer Education Subaccount	
<ul style="list-style-type: none"> Marketing campaign infrastructure prepared as first step in implementing Phase I of Renewable Energy Consumer Education (RECE) Marketing Plan. In June, RECE public education campaign kicked off with pilot program in Santa Monica. 	<ul style="list-style-type: none"> Community outreach and consumer education activities expected to expand to targeted communities throughout California. Funding disbursements are expected to begin.

Renewable Resources Trust Fund Expenditures

Total funds *received* through June 30, 1999 amount to \$164.3 million for all four accounts. Total funds *awarded* as of the second quarter of 1999 amount to \$88.7 million, reflecting payments (disbursements) from the Existing Resources Account, the Emerging Resources Account, and the Customer Resources Account. Total funds *reserved* amount to \$48.7 million, reflecting fund reservations (encumbrances) from the New Resources Account, the Emerging Resources Account, and the Customer Resources Account. Table II shows a financial summary of the Renewables Resources Trust Fund, by account, as of the second quarter 1999.

Table II
Renewable Resources Trust Fund
Current Funding and Expenditures for the Quarter Ending June 30, 1999
(\$ millions)

	Existing Resources Account	New Resources Account³	Emerging Resources Account	Customer Resources Account	Program Total⁴
Available Funds	93.323	39.570	16.425	14.932	164.256
Disbursements	(79.859)	0.000	(1.644)	(7.168)	(88.671)
Current Balance	13.464	39.570	14.781	7.764	75.585
Encumbrances	0.000	(39.570)	(7.612) ⁵	(1.500)	(48.682)
Unexpended Funds	13.464	0.000	7.169	6.264	26.903

The three investor-owned utilities continue deposits into the Fund with payments current to June 30, 1999. The program design has a built-in, two-month processing period for payments to eligible energy in several accounts.

As Table II reflects, payments were made from the Existing Resources Account for electricity produced through April 1999, payments were made from the Customer Resources Account to providers of renewable energy, and claims were paid to systems through the Buydown Program in the Emerging Resources Account. Encumbrances (reservations) were made from the Emerging Resources Account for systems participating in the Buydown Program, the Customer Resources Account for initial implementation activities of the *Renewable Energy Consumer Education Marketing Plan*, and from the New Resources Account for its 55 projects. Funding to these projects will eventually

³ The Commission conditionally allocated \$162 million at its June 5, 1998 auction for future incentive payments. Funds are encumbered for projects as they become available.

⁴ Program Totals include \$6,225 in voluntary contributions.

⁵ Reservation requests granted (but not yet paid) since the March 20, 1998 start-up of the Buydown Program.

total \$162 million; funds from the New Resources Account will continue to be reserved as they become available.

Existing Resources Account

In the second quarter of 1999, nine renewable energy facilities with utility contracts paying above-market fixed energy prices (ISO4 contracts) reached the end of their 10-year fixed price period, resulting in a sharp drop in the energy prices received from their utilities. Initially, these facilities were ineligible for payments from the Existing Resources Account, since they were already receiving above-market energy prices. Now that they are eligible for payments, the facilities have been able to ease the burden of their recent revenue drop with this new monetary benefit.

A total of 700 MW of additional capacity was added to Tier 3 of the Existing Resources Account by the Calpine Corporation, which completed the purchase of PG&E's Geysers geothermal facilities in May 1999. These additional 11 facilities will account for approximately 36% of the total capacity in Tier 3, and payments to them will begin in the third quarter of 1999. There are no longer any rollover funds in Tier 3, and facilities in this tier are presently being paid on a modified funds-available basis. There is a rollover of about \$19.1 million for Tiers 1 and 2.

New Resources Account

All of the 55 winners in the June 1998 auction for incentive payments for new renewable energy projects have passed the first required milestone, which is Commission approval of a Project Award Package. Each Project Award Package includes detailed information about the proposed project, including its financial structure, required permits, construction schedule, possible environmental impacts, and expected electricity generation over five years. So far, 34 project developers have also passed Milestone 2, which requires filing for all the necessary permits to begin construction of the project.

In May 1999, the first projects passed Milestone 6, which is the final milestone, and requires the projects to be on-line. These six landfill gas projects, totaling nearly 23 megawatts of capacity, are located in Los Angeles, Orange, San Diego, Tulare and Yolo counties. Two wind projects, which are located in Riverside County and total over 18 megawatts of capacity, came on-line in June. All eight projects will begin receiving payments in the next quarter.

Emerging Resources Account

The Buydown Program has received 378 reservations since it began on March 20, 1998, including 90 new reservation requests in the second quarter of 1999. These reservations, totaling \$8.6 million, reflect little change from last quarter's \$8.5 million, due to the cancellation of two fuel cell projects, which had encumbered \$1.4 million. To date, almost

\$1.64 million in payments have been made to completed systems participating in the Buydown Program.

Other Emerging Account activities during the second quarter include the mid-April release of 9,800 residential and business consumer surveys. The intent of the surveys is to determine awareness of the different renewable technologies, the Buydown Program, and other related matters. More than 2,400 responses have been returned so far, providing valuable information for future decisions regarding the Buydown Program and other facets of the Emerging Account.

The On-Site Verification Program, which is designed to gather information about the systems participating in the Buydown Program, began this quarter. Approximately 50 systems were visited to verify their completion and how well they are working. A report on this program will be completed in July 1999.

Customer Credit Subaccount

The market remained active in the second quarter of 1999 as new providers chose to participate in the Customer Credit Account, while other providers modified their product offerings, and a few chose to exit the market. To date, a total of 16 providers have registered 31 renewable energy products with the Commission.

Distributions from the Customer Credit Account total \$7,168,119 as of June 30, 1999. In the second quarter of 1999, providers received payments totaling \$1.89 million, up from about \$1.44 million during the previous quarter. About \$1.38 million is currently being held as “credit banked,” and is included in the total calculation of funds distributed.

Payments are made to registered renewable providers when they meet two criteria: The provider must 1) purchase eligible renewable energy for resale to consumers, and 2) pass the credit on to consumers. When there is a difference between these two values, the Commission holds the difference in reserve as “credit banked.” This system allows providers monthly flexibility in meeting their annual product goals. The banked credits are available to be drawn upon at a later time, as long as the provider satisfies both criteria.

Consumer Education Subaccount

In coordination with the Commission, the Renewable Energy Marketing Board began implementing Phase I of the *Renewable Energy Consumer Education (RECE) Marketing Plan* for “green energy.” The goals of the *Marketing Plan* include raising consumer awareness of renewable options and their benefits, and increasing renewable energy purchases.

Initial RECE campaign activities included preparing the infrastructure by coordinating communication systems, developing response systems, and establishing regional campaign offices and staff. The campaign began with a pilot program in Santa Monica, where consumer awareness activities included the production and airing of 30-second cable television spots and targeted direct mail consumer awareness pieces.

Fund disbursements for initial campaign activities are anticipated to begin in the third quarter of 1999. Community outreach activities are expected to expand to targeted communities in Northern and Southern California during the third quarter.

In summary, the Commission continues to make excellent progress in implementing the Renewables Funding Program. We expect program disbursements of the Renewable Resource Trust Fund to increase in the third quarter of 1999.